

ponder oils Ltd.

**ANNUAL REPORT
TO SHAREHOLDERS**

DECEMBER 31, 1973

Annual Report to the Shareholders

PONDER OILS LTD.

Incorporated under the Laws of the Province of Alberta

(Listed on the Toronto Stock Exchange)

**HEAD OFFICE — 1211 CENTRE ST. NORTH
CALGARY, ALBERTA**

DIRECTORS AND OFFICERS

E. Nissen, Calgary, Alberta — President and Chairman of Board

W. L. Falconer, Calgary, Alberta — Vice President and Director

D. A. McFee, Winnipeg, Manitoba — Director

V. F. Burstall, Calgary, Alberta — Secretary

J. M. Brandreth, Calgary, Alberta — Director

D. E. Suttie, Calgary, Alberta — Director

REGISTRAR

MONTREAL TRUST COMPANY

Calgary, Alberta — Toronto, Ontario

AUDITORS

PRICE WATERHOUSE & CO.

Chartered Accountants

Calgary, Alberta

DIRECTORS' REPORT

To The Shareholders:

Your directors present herewith a Consolidated Balance Sheet, Statement of Income and Retained Earnings, Statement of Source and Application of Funds for Ponder Oils Ltd., and its wholly-owned subsidiaries — Universal Printers Ltd. and Discovery Inc. — for the year ended December 31, 1973. The net income from operations after providing for taxes amounted to \$75,437.00 (2.7c per share) as compared to \$91,116.00 (3.4c per share) for 1972. Our cash flow increased to 11.6c from 10.8c in 1972.

Ponder Oils Ltd. maintained its 12.06 per cent interest in the Coutts-Moulton "A" Unit in Southern Alberta. This unit has been producing at a satisfactory rate of over 100,000 barrels per year and as of this date our income will increase due to the drilling of an additional well and providing larger capacity equipment.

An agreement has been entered into whereby Ponder will retain an interest with no further expenditure on the petroleum exploration concession of 4,200,000 acres in the County of Lesotho located in Southern Africa.

Exploration for oil and gas on this concession has begun and drilling is expected to begin during the third quarter.

In 1971 Discovery Inc. purchased a one-sixteenth lease interest in a drilling block of 5,600 acres in the vicinity of Sale Ranch, Sprayberry-Dean producing area in Martin County, Texas. The drilling program consisted of 37 locations, 3 of which were drilled and put into production in the latter 1971. In 1972, 16 producers were drilled and in 1973 we completed 15 producers. We are now drilling the remaining 3 wells.

During 1973 Ponder negotiated a 10% working interest in approximately 20 sections in Southern Alberta (Waite Valley). To date one well has been drilled with gas showings. A program for this field is anticipated for late 1974.

The Company owns an overriding royalty interest under a block of 4,080 acres in Eddy County, New Mexico, which offsets the Belco No. 3 James Unit, an important Pennsylvanian gas discovery. Drilling on this royalty should begin in 1974.

Universal Printers Ltd. experienced a drop in earning in 1973. Our paper-back division was subjected to a lengthy paper mill strike that severely affected profits. With respect to the commercial division, it was felt that more capacity was necessary to satisfy the market served and a new 10 unit web offset press was ordered late in the year and installed early in 1974.

Both plants are now operating efficiently and sales for both divisions are currently ahead of last year. The long term outlook is bright.

The Directors take pleasure in recording their appreciation for the efforts of the employees during the past year.

You are urged to attend the shareholders meeting on June 20, 1974, but if unable to do so, please sign and return the enclosed proxy.

For the Board of Directors,

E. Nissen,
President

Calgary, Alberta,
May 28, 1974.

ASSETS

	<u>December 31</u>	
	<u>1973</u>	<u>1972</u>
CURRENT ASSETS:		
Cash	\$ 1,998	\$ 31,879
Accounts receivable—		
Trade	636,043	680,841
Other	30,327	42,278
Income taxes recoverable	39,260	104,926
Inventories, at the lower of cost and replacement cost	352,371	219,382
Grant receivable from the Government of Canada	18,643	—
Prepaid expenses	15,109	12,272
	<u>1,093,751</u>	<u>1,091,578</u>
GRANT RECEIVABLE FROM THE GOVERNMENT OF CANADA	<u>—</u>	<u>13,649</u>
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land and buildings	242,334	242,334
Leases, well costs and equipment	977,867	771,397
Machinery and equipment	2,246,624	2,221,763
	<u>3,466,825</u>	<u>3,235,494</u>
Less—Accumulated depreciation and depletion	1,707,887	1,547,755
	<u>1,758,938</u>	<u>1,687,739</u>
OTHER ASSETS	<u>71,626</u>	<u>66,297</u>
EXCESS OF PURCHASE PRICE OVER BOOK VALUE OF SUBSIDIARY IN 1960 (Note 2)	<u>849,981</u>	<u>849,981</u>
APPROVED BY THE BOARD:		
E. NISSER, Director		
W. L. FALCONER, Director		
	<u>\$3,774,296</u>	<u>\$3,709,244</u>

AUDITORS' REPORT

To the Shareholders of Ponder Oils Ltd.

We have examined the consolidated balance sheet of Ponder Oils Ltd. and its subsidiaries as at December 31, 1973 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

OILS LTD.
ED SUBSIDIARIES

Balance Sheet

LIABILITIES

	December 31	
	1973	1972
CURRENT LIABILITIES:		
Cheques issued less bank balance	\$ 124,845	\$ 177,792
Bank loans, secured (Note 3)	430,588	314,682
Accounts payable and accrued	273,770	252,340
Sales taxes payable	4,142	15,294
Current portion of long-term debt (Note 4)	67,094	66,622
	<u>900,439</u>	<u>826,730</u>
LONG-TERM DEBT (Note 4):		
First Mortgage Bond, Series A	30,000	90,000
Mortgage	134,138	141,232
	<u>164,138</u>	<u>231,232</u>
DEFERRED INCOME TAXES (Note 5)	78,600	95,600
CONTINGENT LIABILITIES AND COMMITMENTS (Notes 7 and 8)		

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 6):		
Issued—		
8,334 6% cumulative redeemable preferred shares of \$100 each (purchased by a subsidiary company) (authorized — 15,000 shares)		
2,744,700 common shares of 50c each (authorized — 4,000,000 shares)	1,372,350	1,372,350
CONTRIBUTED SURPLUS	5,160	5,160
RETAINED EARNINGS	1,253,609	1,178,172
	<u>2,631,119</u>	<u>2,555,682</u>
	<u>\$3,774,296</u>	<u>\$3,709,244</u>

Subject to our inability to express an opinion as to the value of the excess of purchase price over book value of subsidiary in 1960, referred to in Note 2, in our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta

PRICE WATERHOUSE & CO.
Chartered Accountants

PONDER OILS LTD.

(AND WHOLLY-OWNED SUBSIDIARIES)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1973

1. ACCOUNTING PRINCIPLES:

The consolidated financial statements include the accounts of Ponder Oils Ltd. and its wholly-owned subsidiaries, Universal Printers Ltd. and Discovery, Inc. Both Ponder Oils Ltd. and Discovery, Inc., companies engaged in oil exploration, capitalize the costs of productive oil and gas properties and write off dry hole costs and lease rental payments as incurred. The costs of producing properties are written off by depletion charges on the unit of production method. Buildings, plant and equipment, including equipment on producing wells, are depreciated over their useful lives.

Certain reclassifications have been made in the 1972 comparative figures to be consistent with the 1973 presentation.

2. EXCESS OF PURCHASE PRICE:

None of the excess of purchase price over book value in 1960 has been amortized against earnings of the subsidiary since acquisition. Current earnings do not support a valuation of goodwill in this amount.

3. BANK LOANS:

The bank loans are secured by a chattel mortgage covering equipment and by general assignments of book debts and oil reserves; in addition, the Company has pledged with the bank the shares of a subsidiary and the preferred shares of the Company held by a subsidiary.

4. LONG-TERM DEBT:

Long-term debt, of a subsidiary company, consists of the following:

	Current	Long-term
First Mortgage Bond, Series A, repayable in quarterly principal instalments of \$15,000 plus interest at 12½% — secured by mortgage on equipment and certain land and buildings	\$ 60,000	\$ 30,000
Mortgage, assumed on purchase of land and building during 1971, payable in monthly instalments of \$1,385 including interest at 7%	7,094	134,138
	<u>\$67,094</u>	

5. INCOME TAXES:

Universal Printers Ltd. follows income tax allocation accounting whereby the income tax provision is based on reported income and the difference between the provision and the income taxes currently payable is deferred to future periods. In addition, Ponder Oils Ltd. and Discovery, Inc. have unclaimed drilling and exploration costs and accumulated losses of prior years aggregating \$725,000 which may be deducted from future taxable income.

6. SHARE CAPITAL:

As at December 31, 1973, options were outstanding entitling officers of the Company to purchase 100,000 common shares at a price of 60c per share on or before February 11, 1976. A further 26,000 common shares were reserved for issuance under employees' stock option plans, and subsequent to December 31, 1973 an additional 520,00 shares were reserved under the terms of the issuance of convertible debentures (Note 9).

Preferred shares are redeemable at \$105 per share plus cumulative dividends. As at December 31, 1973, dividends owed to a subsidiary company on preferred shares were in arrears \$250,020.

7. COMMITMENTS:

(a) The Company has a contract for consulting services requiring payments of \$12,000 in each of the years 1974 to 1980.

(b) During the year, Universal Printers Ltd. entered into a purchase contract for the acquisition of new printing equipment costing \$280,000 on which deposits of \$11,600 had been made by December 31, 1973.

(c) Universal Printers Ltd. is committed to a lease which expires in 1981 with renewal options of up to an additional 25 years, for plant facilities, requiring annual rental payments of \$39,500.

8. CONTINGENT LIABILITIES:

A subsidiary company is contingently liable for repayment of up to \$73,240 if it fails to meet the conditions attached to a grant received from the Government of Canada.

9. SUBSEQUENT EVENT:

Subsequent to December 31, 1973, the Company issued 9¾% unsecured convertible debentures totalling \$260,000, maturing January 31, 1979, to two officers who are directors of the Company. These debentures are convertible at the option of the holder into paid up common shares of the Company. The conversion rate for each \$100 principal is as follows:

(a) 200 shares to January 31, 1977;

(b) 167 shares to January 31, 1978; and

(c) 120 shares to January 31, 1979.

10. Remuneration of directors and officers for the year — \$102,093 (1972 — \$107,660).

PONDER OILS LTD.

(AND WHOLLY-OWNED SUBSIDIARIES)

Consolidated Statement of Income and Retained Earnings

	Year ended December 31	
	1973	1972
GROSS SALES	\$3,484,437	\$4,142,167
COSTS AND EXPENSES:		
Cost of sales	2,756,570	3,382,848
Selling, general and administrative expenses	344,181	340,235
Interest (including interest on long-term debt of \$25,558; 1972—\$33,573)	66,549	56,496
Dry holes and abandoned leases	21,193	—
Depreciation	162,039	152,677
Depletion	81,151	51,986
Other expenses(income), net	(5,363)	40,642
	<u>3,426,320</u>	<u>4,024,884</u>
Income before income taxes	58,117	117,283
Provision for income taxes (reduction) (Note 5) (deferred—\$17,000, plus current tax recoverable—\$320)	(17,320)	26,167
Net income for the year	75,437	91,116
Retained earnings, beginning of year	1,178,172	1,087,056
Retained earnings, end of year	<u>\$1,253,609</u>	<u>\$1,178,172</u>
Earnings per common share	<u>\$.027</u>	<u>\$.034</u>

PONDER OILS LTD.

(AND WHOLLY-OWNED SUBSIDIARIES)

Consolidated Statement of Source and Application of Funds

	Year ended December 31	
	<u>1973</u>	<u>1972</u>
SOURCE OF FUNDS:		
Operations—		
Net income for the year	\$ 75,437	\$ 91,116
Add: Expenses not requiring an outlay of funds—		
Depreciation, depletion and amortization	243,190	204,663
Dry holes and abandoned leases	21,193	—
Deferred income taxes	<u>(17,000)</u>	<u>32,200</u>
	322,820	327,979
Government grant	<u>18,643</u>	<u>—</u>
	341,463	327,979
APPLICATION OF FUNDS:		
Deposits on purchase of equipment	11,600	—
Purchases of property, plant and equipment, net	334,305	390,401
Mortgage principal payments	<u>67,094</u>	<u>66,622</u>
	<u>412,999</u>	<u>457,023</u>
Decrease in working capital	71,536	129,044
Working capital, beginning of year	<u>264,848</u>	<u>393,892</u>
Working capital, end of year	<u>\$ 193,312</u>	<u>\$ 264,848</u>

